



Presentation to Senate Ways & Means Committee February 3, 2011

Overview of the FY 2011 Budget and the Governor's Recommendations for FY 2011, FY 2012 and FY 2013

FY 2011 GENERAL FUND BUDGET

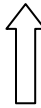
- The General Assembly enacted a balanced budget for FY 2011 with an estimated surplus of \$182.6 million based on a March 2010 REC revenue growth estimate of 2.1%.
- October, 2010 REC revised FY 2011 General Fund estimate upward in October (by \$295 million), and again in December (by \$33 million), projecting 3.5% growth compared to FY 2010. Revenue available = \$5,791.60
- \$83.8 million budget reduction mandated in HF 2351 (FY 2011 Standing Appropriations Act) was implemented by Governor Culver on January 3, 2011.
- The Governor's Recommendation for the FY 2011 Budget includes revenue adjustments of \$ - 41.3 million (discussed later) and supplemental appropriations of \$39.8 million.
- Leaves a projected surplus of \$433.4 million.

FY 2011 General Fund Budget			
(Dollars in Millions)			
	Enacted 2010 Session	Estimated Dec. 6, 2010	Gov Rec FY 2011
Funds Available:			
REC Net Revenue Estimate	\$ 5,436.3	\$ 5,791.6	\$ 5,791.6
Legislative Session Adjustments	23.5		
Gov's Revenue Adj			- 41.3
Total Funds Available	\$ 5,459.8	\$ 5,791.6	\$ 5,750.3
Appropriations and Expenditures:			
Appropriations	5,279.2	5,279.1	5,279.1
Est. Supplemental		21.0	39.8
Total Appropriations	5,279.2	5,300.1	5,318.9
Reversions	- 2.0	- 5.0	- 2.0
Net Appropriations	5,277.2	5,295.1	5,316.9
Ending Balance - Surplus	\$ 182.6	\$ 496.5	\$ 433.4

FY 2011 Appropriation Adjustments

	\$84M Reduction				
	Initial Est FY 2011*	Allocation FY 2011	Estimated FY 2011	Gov Rec Supp FY 2011	Gov Rec FY 2011
Administration and Regulation	\$ 66,549,490	\$ -7,218,206	\$ 59,331,284	\$ 263,329	\$ 59,594,613
Agriculture and Natural Resources	35,917,312	-2,152,106	33,765,206	0	33,765,206
Economic Development	41,754,957	-3,598,327	38,156,630	0	38,156,630
Education	844,371,902	-8,755,571	835,616,331	0	835,616,331
Health and Human Services	935,477,757	-32,544,235	902,933,522	3,856,867	906,790,389
Justice System	635,701,393	-29,475,081	606,226,312	35,708,133	641,934,445
Unassigned Standings	2,803,071,366	-16,975	2,803,054,391	0	2,803,054,391
Grand Total	\$ 5,362,844,177	\$ -83,760,501	\$ 5,279,083,676	\$ 39,828,329	\$ 5,318,912,005

* Represents the FY 2011 legislative action prior to the allocation of the \$83.8 million reduction.



Governor's Recommendation FY 2011 Supplemental Appropriations

	FY 2011
Administration and Regulation	
Dept. of Admin. Services - Terrace Hill Operation	\$ 263,329
Health and Human Services	
Dept. of Human Services - Mental Health Institutions	\$ 2,644,319
Dept. of Public Health - Health Services	1,212,551
Total Health and Human Services	<u>\$ 3,856,870</u>
Justice Systems	
Dept. of Inspections and Appeals - Indigent Defense	\$ 18,551,500
Dept. of Corrections - Operations	14,201,633
Dept. of Public Safety - Operations	2,955,000
Total Justice Systems	<u>\$ 35,708,133</u>
Total Supplemental Appropriations	<u><u>\$ 39,828,332</u></u>

FY 2012 GOVERNOR'S RECOMMENDATION

State of Iowa Estimated Condition of the General Fund (Dollars in Millions)					
	Actual FY 2010	Gov Rec FY 2011	Gov Rec FY 2012	Gov Rec FY 2013	
Funds Available:					1
Receipts	\$ 6,711.4	\$ 6,916.8	\$ 7,196.1		←
Transfers	140.9	81.9	65.2		
Tax Refunds	- 859.1	- 826.0	- 838.0		
School Infrastructure Refunds	- 372.5	- 395.0	- 409.6		
Accruals	13.1	13.9	17.6		
Net Receipts	5,633.8	5,791.6	6,031.3	6,272.6	
Revenue Adjustments		- 41.3	122.9	57.1	2
Economic Emergency Fund Transfer			254.8	232.0	←
Total Funds Available	\$ 5,633.8	\$ 5,750.3	\$ 6,409.0	\$ 6,561.7	
Expenditure Limitation			6,337.8	6,488.2	
Estimated Appropriations and Expenditures:					3
Appropriations	\$ 5,304.7	\$ 5,279.1	\$ 6,161.6	\$ 6,274.5	←
Estimated Supplemental Appropriations		39.8			
Total Appropriation	5,304.7	5,318.9	6,161.6	6,274.5	
Reversions	- 6.5	- 2.0	- 2.0	- 2.0	
Net Appropriations	\$ 5,298.2	\$ 5,316.9	\$ 6,159.6	\$ 6,272.5	
Ending Balance - Surplus	\$ 335.6	\$ 433.4	\$ 249.4	\$ 289.2	
Appropriations/Transfers to Other Funds					
Senior Living Trust Fund	\$ 48.2	\$ 0.0	\$ 0.0	\$ 0.0	
Cash Reserve Fund	287.4	433.4	249.4	289.2	
Total	\$ 335.6	\$ 433.4	\$ 249.4	\$ 289.2	
Numbers may not equal totals due to rounding.					

1. December REC estimate of net General Fund receipts = 4.5% revenue growth compared to the estimate for FY 2011 (excludes transfer revenue). Included in that revenue estimate are \$320.1 million in **assumed tax credit redemptions**. The table below outlines the tax credit redemptions the REC estimate assumes will be claimed in FY 2011 and FY 2012. Any person or business meeting the eligibility criteria can claim a credit. In instances where there is a "cap" on the credit (noted by an asterisk in the table), there is a maximum that may be claimed either in one year, or over a period of years.

Estimated Contingent Liabilities for State Tax Credits		
(Dollars in Millions)		
Legislation or Tax Credit Program	FY 2011	FY 2012
Accelerated Career Education Tax Credit	* \$ 4.3	\$ 4.3
Agricultural Assets Transfer Tax Credit	* 2.0	2.2
Biodiesel Blended Fuel Tax Credit	6.0	5.4
Charitable Conservation Contribution Tax Credit	0.4	0.5
Child and Dependent Care Tax Credit	9.2	6.3
DED Awarded Sales Tax Refunds	7.4	6.0
E85 Gasoline Promotion Tax Credit	1.9	1.5
Early Childhood Development Tax Credit	0.5	0.5
Earned Income Tax Credit	32.6	30.3
Endow Iowa Tax Credit	* 2.5	3.0
Enterprise Zone Program Housing Investment Tax Credit	* 2.9	3.2
Enterprise Zone Program Investment Tax Credit	* 18.3	18.6
Ethanol Blended Gasoline Tax Credit	2.1	0.0
Ethanol Promotion Tax Credit	5.0	4.4
Film, Television, and Video Project Promotion Program - Awarded	* 4.9	0.5
Film, Television, and Video Project Promotion Program - Future Awards	* 0.0	0.0
Film, Television, and Video Project Promotion Program - Under Review	* 2.2	5.4
High Quality Job Program Investment Tax Credit	* 33.8	29.9
Historic Preservation and Cultural and Entertainment District Tax Credit	* 38.5	29.8
Iowa New Job Income Tax Credits (260E)	5.1	5.4
Iowa New Job Training Program Withholding Credits (260E)	48.6	50.8
New Capital and Income Program Investment Tax Credit	1.1	0.0
New Jobs and Income Program Investment Tax Credit	4.9	0.0
Redevelopment Tax Credit	* 0.2	0.1
Renewable Energy Tax Credit	* 2.2	2.5
Research Activities Tax Credit	34.3	35.0
School Tuition Organization Tax Credit	* 7.2	7.3
Supplemental Research Activities Tax Credit	16.8	16.2
Targeted Jobs Tax Credit from Withholding	2.3	3.5
Tuition and Textbook Tax Credit	15.9	16.0
Venture Capital Tax Credit - Iowa Fund of Funds	* 0.0	0.0
Venture Capital Tax Credit - Qualified Bus. or Comm.-Based Seed Capital Fund	* 2.3	1.2
Venture Capital Tax Credit - Venture Capital Funds	* 0.5	0.3
Soy-Based Cutting Tool Oil Tax Credit	* 0.0	0.0
Wage-Benefits Tax Credit	* 3.8	3.9
Wind Energy Production Tax Credit	* 0.6	0.7
Tax Credit Program Total	\$ 320.1	\$ 294.6
Estimated Change from the Previous Fiscal Year	\$ 38.3	\$ -25.6
Notes:		
Estimates are based on information provided by the Department of Revenue prior to the December, 2010, Revenue Estimating Conference and may differ from information provided in the Department's Contingent Liabilities Report.		
*Indicates that programs have credit cap amount.		

2. Revenue Adjustments of \$122.9 million and transfer from the Economic Emergency Fund (because the reserve funds are full) of \$254.8 million. The following table outlines the impact of the Governor's proposed revenue adjustments.

General Fund Revenue Adjustments			
(Dollars in Millions)			
	Gov Rec FY 2011	Gov Rec FY 2012	Gov Rec FY 2013
Tax Relief Act	\$ 15.4	\$ 119.3	\$ 119.7
Internal Revenue Code (IRC) Bill	- 19.3	-38.3	-22.0
Corporate Income Tax	- 36.6	-136.2	-223.0
Active Duty Military Pay Income Tax Exclusion	- 0.8	-11.9	-9.5
Gambling tax Increase	0.0	190.0	191.9
Total Revenue Adjustments	\$ - 41.3	\$ 122.9	\$ 57.1



The Governor's recommendation includes:

- Adjusting revenues and incorporates the federal deductibility impacts of recent Congressional action (Tax Relief Act) lowering tax year 2011 and 2012 federal tax rates and extending expiring tax credits and other tax preferences.
- Coupling with the Internal Revenue Code conforming the Iowa tax code to mirror recent Congressional changes to the federal tax code. The federal Acts included in the conformity recommendation include the Tax Relief and Jobs Creation Act, Patient Protection Act, and the Small Business Jobs Act.
- Reducing Iowa's current corporate income tax rate from a set of tiered rates ranging from 6.0% to 12.0% to a flat corporate tax rate of 6.0%.
- Expanding Iowa's current income tax exclusion for certain military pay to include all active duty military pay.
- Increasing the maximum tax rate for gambling facilities from the current 22.0% to 36.0% and depositing the additional revenue in the State General Fund.
- Other proposals relating to taxes not impacting the FY 2012 or FY 2013 balance sheet:
 - Startup business. No income tax for first three years, and sales tax exemption for three years of \$50,000 of taxable purchases.
 - Tuition tax credit for businesses that hire voc technical students directly out of community college.

3. Appropriations

- General Fund increases are largely the result of restoring General Fund appropriations to programs that were funded with Non-General Fund sources in FY 2011 and prior years. The Governor's recommendation includes moving \$709.4 million in appropriations that were funded from non-General Fund sources in FY 2011 back to the General Fund in FY 2012. (see table below.)

General Fund Related Expenditures Shifted to Other Funding Sources		
	FY2011	Included in Governor's Rec General Fund Budget FY2012
Non-General State Funds		
Cash Reserve Fund	\$ 250,836,603	\$ 238,776,603
Commerce Revolving Fund	27,072,322	26,694,781
Environment First Fund	3,520,000	-
Hospital Health Care Trust Fund	18,863,117	-
Medicaid Fraud Account	1,589,527	-
Merchant Marine Fund	90,000	90,000
Pharmaceutical Settlement Account	4,027,613	-
Public Safety Enforcement Fund	9,335,000	8,935,000
Quality Assurance Trust Fund	6,400,000	-
Rebuild Iowa Infrastructure Fund	78,848,587	4,843,175
Revenue Bonds Capitals I and II Funds (IJOBS)	12,950,000	-
School Infrastructure Fund	7,500,000	-
Senior Living Trust Fund	48,267,133	48,267,133
Underground Storage Tank Fund	24,430,000	11,929,275
American Recovery and Reinvest. Act (ARRA)-Federal Funds	299,765,676	293,426,454
Other Federal Funds	10,367,354	8,317,864
Appropriation Carryforwards	68,099,040	68,099,040
GRAND TOTAL	\$ 871,961,972	\$ 709,379,325

Note: Amounts not recommended for General Fund were either continued in ongoing revenue sources or not recommended to continue.

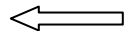
Source: Department of Management

- Significant Recommended Changes
 - Governor's recommendation fully funds Medicaid at \$923.5 million or a \$527.6 million General Fund increase.
 - School Aid – increase of \$126.0 million – outline on pg. 70 of LSA Budget Analysis.
 - Funds the Property Tax Credits at FY 2011 level (\$146.0 million).
 - Increases Performance of Duty Funding \$36.9 million (most of this is disaster related).

- Indigent Defense increase (\$16.0 million).
- Does not include funding for collective bargaining in FY 2012. Total estimated need to fund salary increase for FY 2012 is \$89.2 million for the General Fund (includes \$46.3 million for the Board of Regents). Not all bargaining units have reached an agreement.
- Significant appropriation decreases include:
 - Regents General Operations = \$ -28.0 million
 - Office of Energy Independence/Iowa Power Fund = \$ -19.6 million
 - Voluntary Preschool Access = \$ -12.2 million
 - Merged Area Schools-General Aid = \$ -8.4 million

4. Reserve Funds - Under the Governor's Recommendation, in FY 2011 the Reserve Funds will be 81% "full" or \$105.8 million from the statutory maximum of \$542.7 million (10% of the adjusted revenue estimate).

State of Iowa Reserve Funds				
(Dollars in Millions)				
Cash Reserve Fund (CRF)				
	Actual FY 2010	Estimated FY 2011	Gov Rec FY 2012	Gov Rec FY 2013
Balance Brought Forward	\$ 465.2	\$ 322.8	\$ 337.8	\$ 461.6
Gen. Fund Appropriation from Surplus	0.0	287.4	433.4	249.4
Total Funds Available	465.2	610.2	771.2	711.0
Appropriations & Transfers				
Transfer to General Fund	-65.0			
Appropriation to Executive Council	-25.6	-10.6		
Property Tax Credit Appropriation	-54.7	-54.7		
Appropriation to Medicaid		-187.8		
Flood Mitigation Projects		-6.6		
DOM Contingent Appropriation*		-5.0		
Preschool Program - CRF		-4.0		
Iowa Power Fund - CRF		-2.0		
Other Appropriations		-1.7		
Reversions	2.9			
Total Appropriations & Transfers	-142.4	-272.4	0.0	0.0
Excess Transferred to EEF	0.0	0.0	- 309.6	- 236.3
Balance Carried Forward	\$ 322.8	\$ 337.8	\$ 461.6	\$ 474.7
Maximum 7.5%	\$ 439.2	\$ 407.0	\$ 461.6	\$ 474.7
Economic Emergency Fund (EEF)				
	Actual FY 2010	Estimated FY 2011	Gov Rec FY 2012	Gov Rec FY 2013
Balance Brought Forward	\$ 53.8	\$ 99.1	\$ 99.1	\$ 153.9
General Fund Repayment (Sec. 8.55)	45.3			
Excess from Cash Reserve	0.0	0.0	309.6	236.3
Total Funds Available	99.1	99.1	408.7	390.2
Appropriations & Transfers				
Excess Transferred to General Fund			-254.8	-232.0
Balance Carried Forward	\$ 99.1	\$ 99.1	\$ 153.9	\$ 158.2
Maximum 2.5%	\$ 146.4	\$ 135.7	\$ 153.9	\$ 158.2
Combined Balances				
	Actual FY 2010	Estimated FY 2011	Gov Rec FY 2012	Gov Rec FY 2013
Statutory Maximum	\$ 585.5	\$ 542.7	\$ 615.5	\$ 632.9
Fund Balances	\$ 421.9	\$ 436.9	\$ 615.5	\$ 632.9



5. The Governor does recommend a biennial budget. A 4.0% revenue growth estimate is assumed and the General Fund appropriations of \$6,274.5 for FY 2013 represent an increase of \$112.9 million (1.85) compared to the Governor's recommendation for FY 2012. Of the eight budget areas, six have no funding level changes based on the Governor's recommendation.

Comparison of All Appropriated Funds - The Governor is recommending a total of \$6,999.6 million in appropriations from all State funding sources for FY 2012. This represents a decrease of \$1.8 million (0.0%) compared to all State appropriations of FY 2011. For this comparison, the FY 2011 General Fund appropriation total includes the Governor's recommended supplemental appropriations of \$39.8 million. The Governor's recommended budget includes an increase of \$842.7 million (15.8%) in General Fund appropriations. The Governor is recommending a total \$944.0 million from non-General fund sources, which represents a reduction of \$935.8 million (49.8%).

- The table on the following page summarizes the appropriations by funding source. Since there are appropriations and transfers between funds, adjustments were made to the General Fund, Rebuild Iowa Infrastructure Fund, and Cash Reserve Fund amounts to eliminate double counting.
- Most of the reductions to non-General Fund appropriations are due to the Governor recommending the appropriations be funded from the General Fund in FY 2012. This includes appropriations funded through the Federal Recovery and Reinvestment Fund (federal stimulus), Cash Reserve Fund, Property Tax Credit Fund, Senior Living Trust Fund, Underground Storage Tank Fund, and the Commerce Revolving Fund.

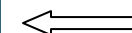
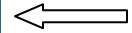
Comparison of All Appropriated Funds

(Dollars in Millions)

Funding Sources	Actual FY 2010	Est. Net FY 2011	Gov. Rec. FY 2012	Gov. Rec. vs. FY 2011	Percent Change
GENERAL FUND					
Total General Fund Appropriations	\$ 5,304.7	\$ 5,318.9	\$ 6,161.6	\$ 842.7	15.8%
<i>General Fund Appropriations to Other Funds*</i>					
Mental Health Property Tax Relief Fund	-3.3	0.0	0.0	0.0	
Health Care Trust Fund	-106.0	-106.0	-106.0	0.0	
Property Tax Credit Fund	-91.3	-91.3	0.0	91.3	
Total GF Appropriations to Other Funds	-200.6	-197.3	-106.0	91.3	
Net General Fund Appropriations	\$ 5,104.1	\$ 5,121.6	\$ 6,055.6	\$ 934.0	18.2%
NON-GENERAL FUND APPROPRIATIONS					
Rebuild Iowa Infrastructure Fund	\$ 206.8	\$ 153.2	\$ 167.7	\$ 14.5	
RIIF Appropriations to Other Funds*	-56.5	-43.0	-43.0	0.0	
Net RIIF Appropriations	\$ 150.3	\$ 110.2	\$ 124.7	\$ 14.5	
Cash Reserve Fund	80.3	272.4	0.0	\$ - 272.4	
CRF Appropriations to Other Funds*	-54.7	-54.7	0.0	54.7	
Net CRF Appropriations	\$ 25.6	\$ 217.7	\$ 0.0	\$ - 217.7	
Federal Recovery and Reinvestment Fund**	\$ 642.1	\$ 302.6	\$ 0.0	\$ - 302.6	
Primary Road Fund	302.4	301.8	298.3	-3.5	
Revenue Bonds Capital II Fund	0.0	150.0	0.0	-150.0	
Iowa aCare Fund	122.8	147.3	147.3	0.0	
Property Tax Credit Fund	149.8	146.0	0.0	-146.0	
Health Care Trust	106.9	106.9	106.0	-0.9	
Road Use Tax Fund	52.9	51.6	50.3	-1.3	
Senior Living Trust Fund	49.6	48.3	0.0	-48.3	
Hospital Health Care Access Trust	0.0	40.0	40.0	0.0	
Revenue Bonds Capital I Fund	317.5	39.2	4.1	-35.1	
Fish and Wildlife Trust Fund	38.8	38.8	38.8	0.0	
Environment First Fund	42.0	33.0	33.0	0.0	
Commerce Revolving Fund	26.7	27.1	0.0	-27.1	
Underground Storage Tank Fund	0.2	26.6	0.4	-26.2	
IPERS Fund	18.0	17.7	17.7	0.0	
Quality Assurance Trust Fund	2.3	13.9	35.7	21.8	
School Infrastructure Fund	0.0	12.7	0.0	-12.7	
Technology Reinvestment Fund	14.8	10.1	10.0	-0.1	
Gaming Enforcement Revolving Fund	0.0	9.8	9.8	0.0	
Other	43.3	28.5	27.9	-0.6	
Total Non-General Fund	2,106.0	1,879.8	944.0	-935.8	-49.8%
SUBTOTAL OF ALL STATE FUNDS	\$ 7,210.1	\$ 7,001.4	\$ 6,999.6	\$ - 1.8	0.0%

* Appropriations between funding sources are adjusted to avoid double counting.

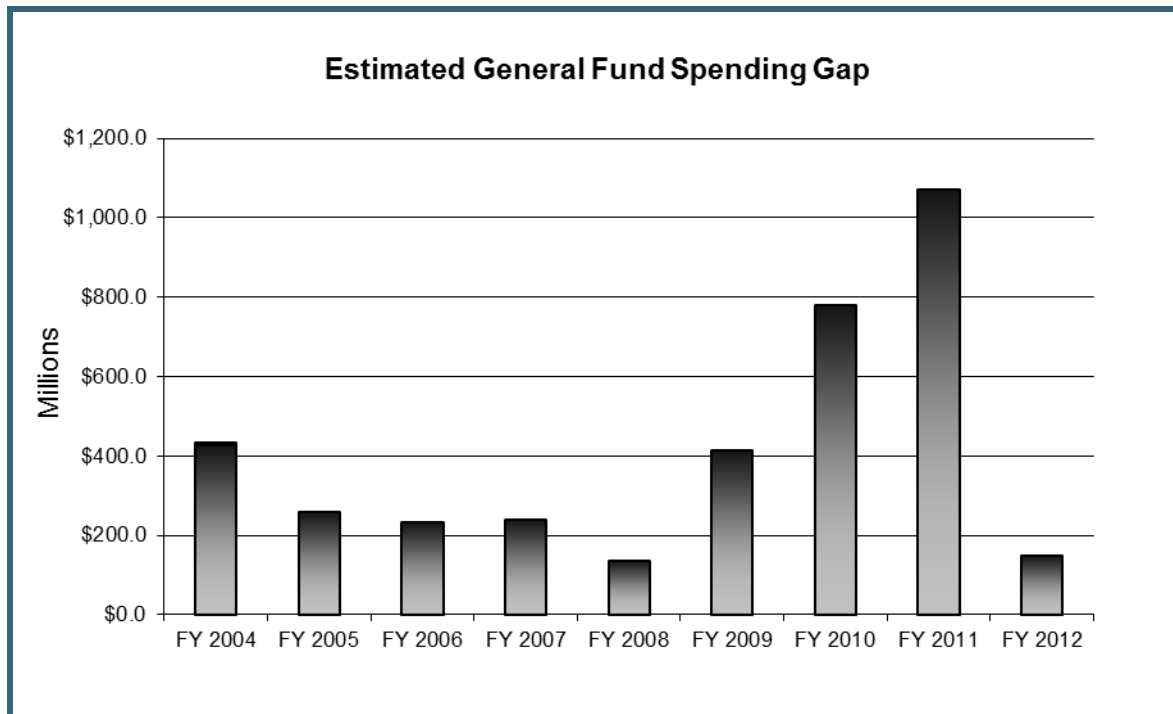
** Includes non-appropriated federal stimulus funds received directly by the Medicaid Program that were used to offset State funding.



ARRA



Spending Gap – Prior to the Governor’s Recommendation and Legislative Action



Calculation of the spending gap:



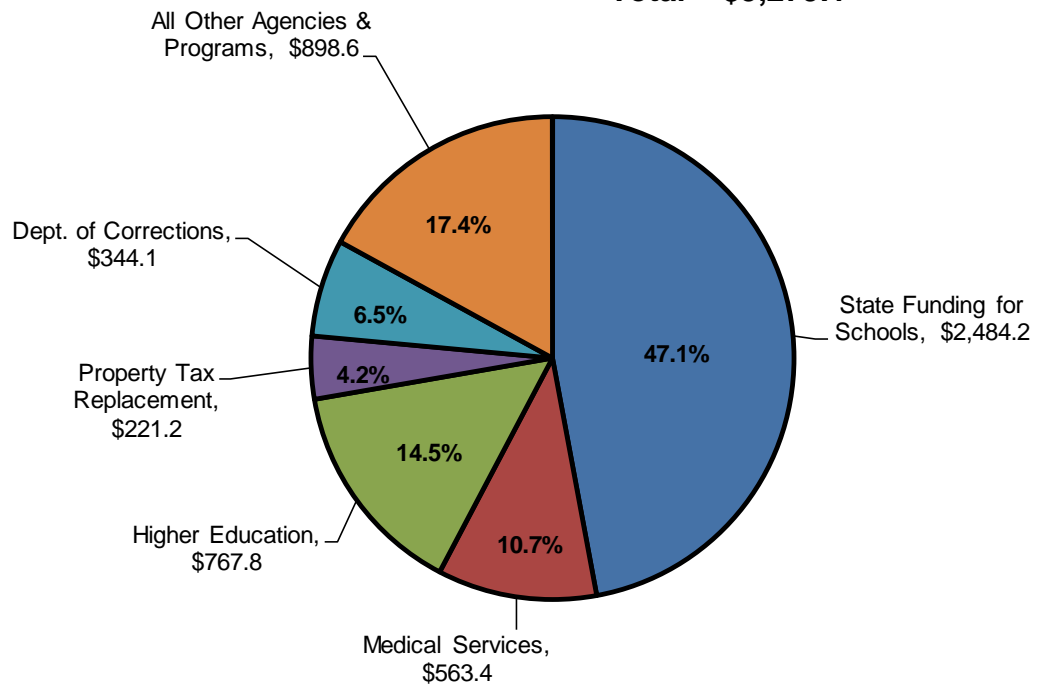
$$\begin{array}{r}
 \text{Estimated Revenue X Expenditure Limit} \\
 \text{Less Estimated Appropriations (including anticipated built-in increases)} \\
 \text{Adjustment to Balance Budget} \\
 \hline
 = \text{Ending Balance (1\% of adjusted revenues)}
 \end{array}$$

Why so much lower in FY 2012?

- Increased revenues
- Federal tax law changes (extension of the tax cuts) increases Iowa revenue
- Reserve funds are full – transfer from excess in Econ. Emerg Fund

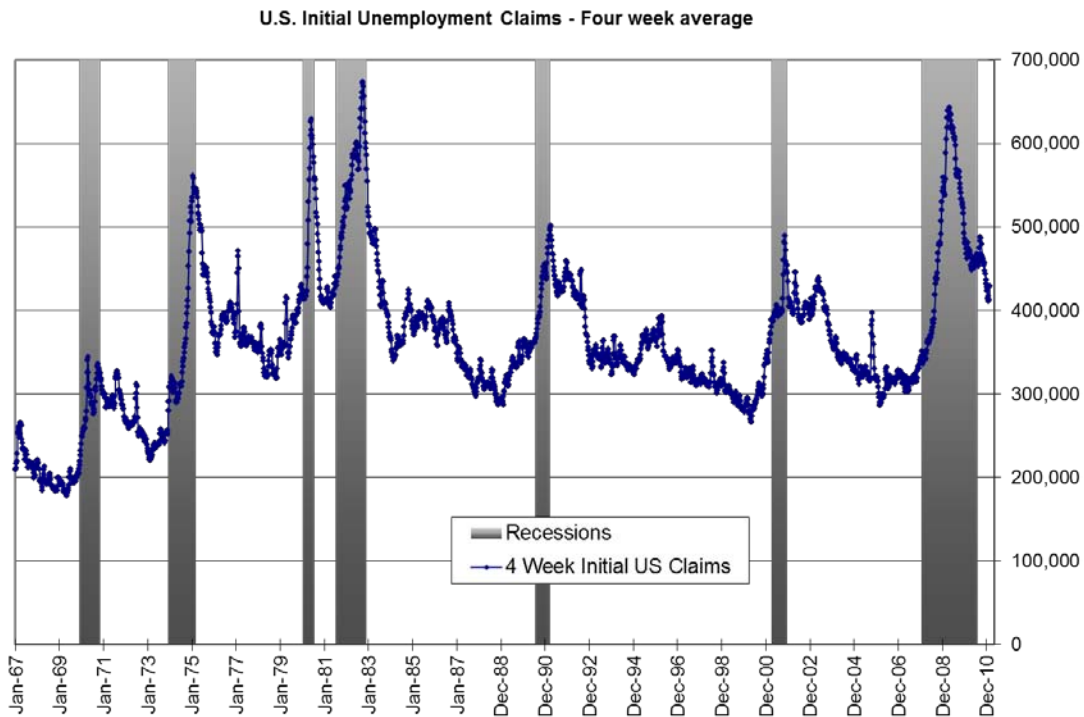
**FY 2011
General Fund Appropriations**
(Dollars in Millions)

Total = \$5,279.1

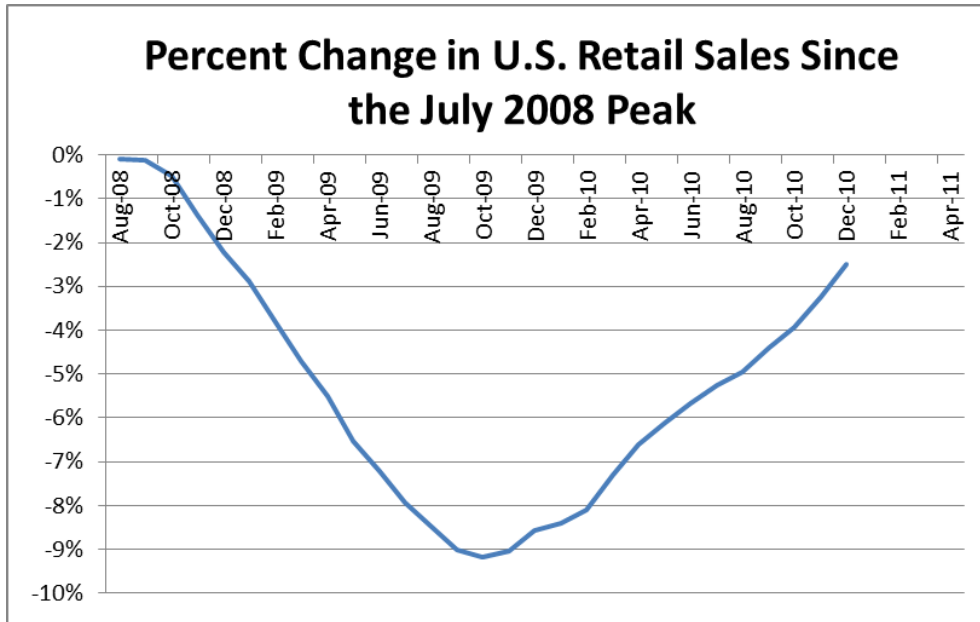


ECONOMY/REVENUES

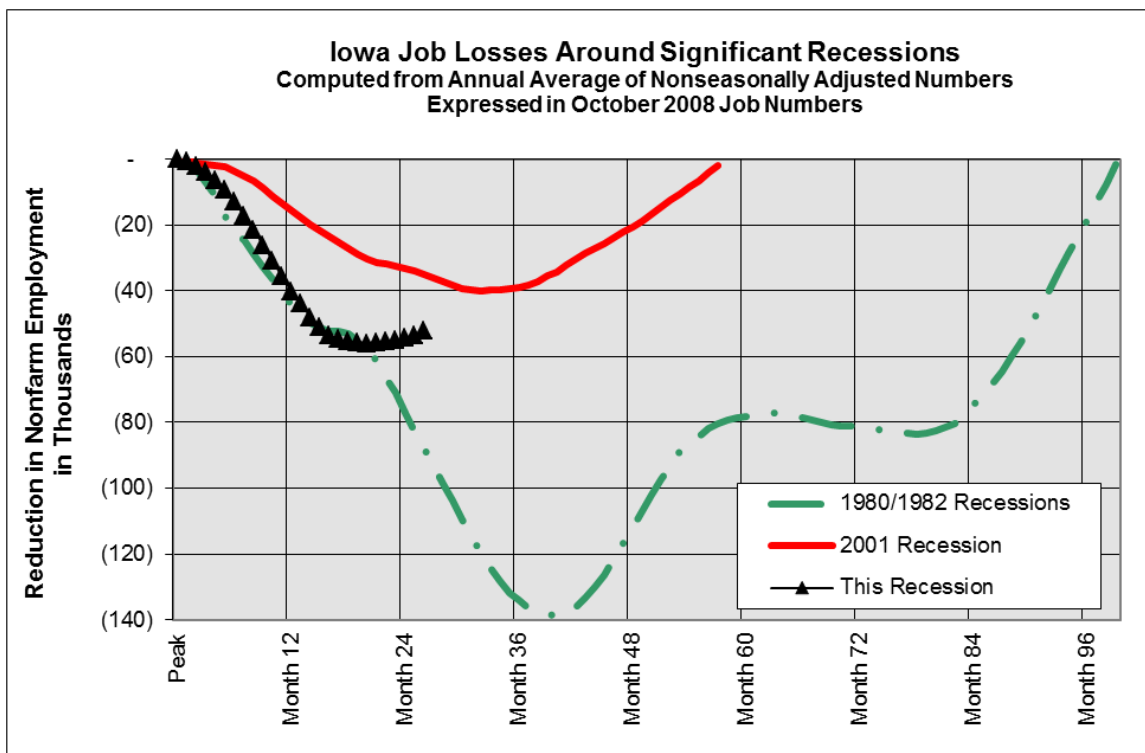
The U.S. recession started December 2007 and ended June 2009. It was the longest recession since the early 1930's.



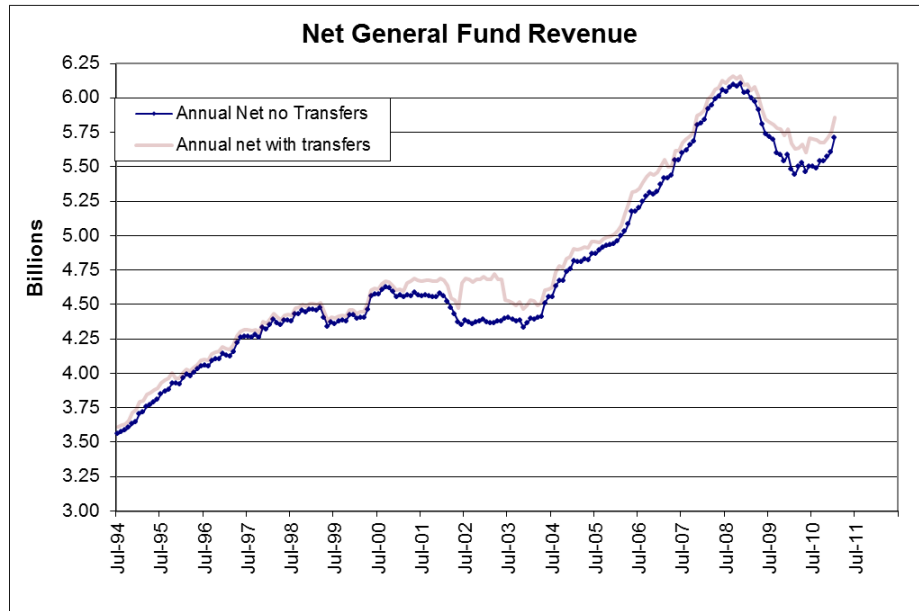
U.S. retail sales plummeted after a peak during the summer of 2008, and fell more than 9% from that peak. The level of retail sales remains 2.5% below that peak reached more than two years ago. The recent trend is encouraging but the nominal level of spending remains below the peak. In inflation adjusted terms, this graph would appear somewhat less encouraging.



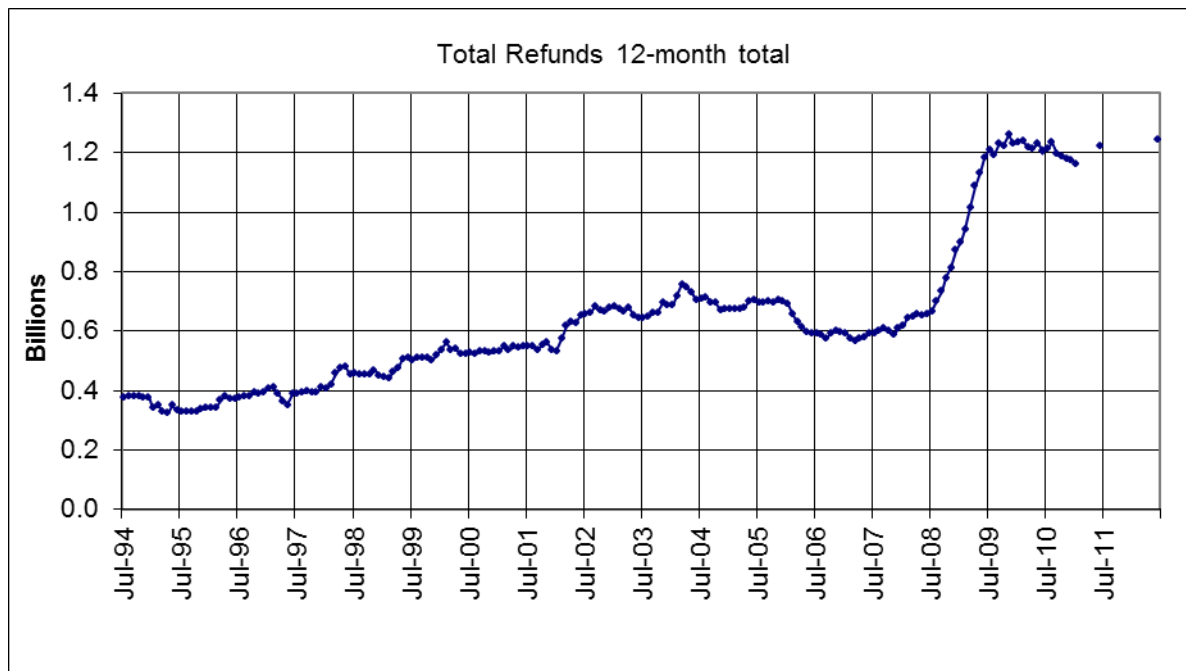
The current data indicate Iowa has returned to job growth, but there is still much ground to make up. Benchmarking of the past 18 months of data, due to occur March 10, may change the overall look of the jobs recovery.



Net Revenue Growth declined significantly since the fall 2008 peak. The recent upturn is encouraging.



The annual level of tax refunds issued has been declining in recent months and that is contributing to the growth in net revenue.



Other States:

Just released State Revenue Report by the Rockefeller Institute (www.rockinst.org)

- Indicates that preliminary figures for the 4th quarter of calendar 2010 indicate new strength in state tax revenues. Overall collections in 41 reporting states showed growth of 6.9% compared to the same quarter of 2009 and 3.0% compared to the same quarter of 2008, but still 0.8% below the level of 2007.
- Signs that the national economy is improving and therefore indicating a recovery from the recession, but several factors such as sharp declines in employment and retail sales indicate that state fiscal recovery will be exceptionally slow and much longer compared to prior recessions. "States will continue to search for ways to climb out of a very deep hole."

Daily Receipts Run: <http://www.legis.state.ia.us/receipts/daily.html>

Gross Receipts:

REC Estimate for FY 2012: 3.1%

Daily Receipts (thru 2/2): 4.5%

Net Receipts:

REC Estimate for FY 2012: 4.5%

Daily Receipts (thru 2/2) 6.6%

FY 2011 impact of federal legislation enacted after the December REC = +\$15.4 million (adds 0.3% to December REC FY 2011 growth rate).

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